

IRVINGTON UNIFIED SITE

Consideration of Property Acquisition and Developer Solicitation for Irvington Unified Redevelopment Area

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Executive Summary: At its February 26, 2002 meeting, the Agency Board directed staff to continue working toward redevelopment of the Irvington Unified Redevelopment Area (“the Site”) and to return to the Board in May 2002 with an update on its work and a recommendation regarding whether to pursue acquisition of property. This report provides the Agency Board with options regarding the Redevelopment Agency’s future role in the Site, and recommends a course of action. The options include proceeding with property acquisition of the Site or a portion of the Site and engaging in a new process to solicit owner and developer proposals for redevelopment of the Site. If the Agency Board chooses to proceed with redevelopment of the Site, it also could modify the Unified Redevelopment Area to include two properties on Bay Street. The report summarizes the options for moving forward with redevelopment of the Site against the option of not pursuing any property acquisition related to the Site.

Based on extensive work on the Site for over two years, the report identifies the benefits, costs and risks of proceeding with property acquisition of the Site. In addition to requiring a very substantial Agency investment, acquiring the properties of the Site will expose the Agency to risks related to selecting a quality developer and the mix of uses and market readiness of a proposed development program. However, staff believes that due to its location and current condition, redevelopment of the Site is a catalyst project for the entire Irvington district. Therefore, staff recommends the Agency proceed with property acquisition and select a qualified developer. A potential project could build off strengths of the district, including Bay Street Coffee Company, Broadway West Theater, the Farmers’ Market, interesting and historic architecture near the Five Corners, and small businesses. At the same time, a redevelopment project could address site-specific weaknesses that seem to have inhibited additional investment in the area, including poor parking arrangements on Bay Street, physical blight, environmental contamination, unusually configured parcels, and lack of pedestrian orientation. Given the Site’s current constraints (configuration of parcels, diverse property ownership, and presence of hazardous materials), it is unlikely that market forces will lead to coordinated private redevelopment of the Site. Further, it is unlikely that alternate uses of a comparable level of investment such as on a variety of capital projects, commercial rehabilitation loans, or other properties in Irvington could generate an equivalent return in terms of stimulating private investment and enhancing the quality standard for redevelopment in the Irvington business district. On this basis, staff recommends that the Agency direct staff to take the following steps to redevelop the Site:

1. Begin acquisition process for the following properties (and return to Agency Board in closed session to seek approval to make property acquisition offers):

- a. Yang Property: 41030-41072 Trimboli Way and 41025-41047 Fremont Blvd.
 - b. Harris Property: 41080 Trimboli Way; 41057-41085 Fremont Blvd., and 4051 Irvington Ave.
 - c. Fremont Islamic Center Property: 4039 Irvington Ave.
 - d. Henry Trust Property: 41093 Fremont Blvd.
 - e. 4024 Bay Street
 - f. 4032 Bay Street
2. Issue an RFQ consistent with the objectives and criteria in this staff report for a developer who seeks to build a mixed-use development project with commercial orientation toward Bay Street and the Five Corners
 3. Continue working with regulatory agencies on developing an environmental remediation strategy for the entire site and seek cost recovery from parties responsible for the contamination.
 4. Develop a Relocation Plan for tenants on the site.
 5. Pursue the demolition of the abandoned gas station on the Site.
 6. Approve a transfer of \$400,000 in appropriations from the reserves for property acquisition and development (951 RDA 1026) to Irvington Monument Center (951 RDA 1012); and
 7. Modify the Unified Redevelopment Area to include two adjacent converted homes on Bay Street (4024 Bay Street and 4032 Bay Street). Doing so would improve the ability of the Agency and the selected developer to meet the redevelopment objectives for the Site, including orientation of retail and restaurant space to Bay Street.

Report Outline: Due to the length and complexity of the report, the following outline is provided as a guide to the elements and sections addressed in the report:

Background

- I. Environmental investigation
 - a. Update on work
 - b. Summary of environmental conditions
 - c. Information on remedial approach and costs
 - d. Impact of environmental issues on redevelopment
- II. Interest of other specialty grocery store anchor tenants
- III. Evaluation of alternate development options
 - a. Commercial-oriented development option
 - b. Alternate development options
 - c. Redevelopment Agency investment

Discussion

- I. Benefits of proceeding with redevelopment of the Site
 - a. Eliminate blight
 - b. Set quality standard for future development

- c. Stimulate additional private investment
- d. Advance Irvington Concept Plan when finalized
- II. Costs of proceeding with redevelopment of the Site
- III. Alternative public investment options for Agency
- IV. Risks of proceeding with redevelopment of the Site

Options for proceeding with redevelopment of the Site

Option 1 – Proceed with property acquisition of the currently designated Unified Redevelopment Area

Option 1a – Exclude certain properties from the Site

Option 1b – Include 4024 and 4032 Bay Street in the Site

Option 2 – Do not pursue property acquisition

Issuance of Request for Qualifications (RFQ) for a developer

Enclosures

Recommendation

BACKGROUND: On March 28, 2000, the Agency Board designated specified parcels in the Irvington Redevelopment Project Area as a Unified Redevelopment Area (Site). The Site is generally bounded by Fremont Boulevard, Bay Street, Irvington Avenue and Trimboli Way. (The Site includes the Harris property, the Yang property, the Henry Trust property and the Fremont Islamic Center property, but does not include the four properties with three existing buildings that front on Bay Street.) In so designating the properties, the Agency determined that it was in the best interests of the Project Area that the properties be developed in a unified manner, and it also authorized the issuance of a Request for Proposals (RFP) soliciting owner and developer interest in redeveloping the Unified Redevelopment Area.

On June 5, 2001 the Agency Board adopted a resolution identifying the City-Core proposal as the preferred development proposal. The preferred development proposal included a proposed Whole Foods Market, approximately 30,000 square feet of additional retail space and 60 housing units.

On October 23, 2001, staff presented revised estimates of the necessary Agency investment (property acquisition costs plus tenant relocation costs plus demolition costs minus the residual land value of the property based on the preferred development proposal) in the proposed project (\$14 million plus a \$2 million contingency) and analyzed different possible next steps on the project. The Agency Board authorized the Executive Director to enter into an ERN with City-Core and directed staff to begin the process to acquire specified privately owned properties in the Unified Redevelopment Area, including appraisal and environmental investigation of the properties and preparation of a Relocation Plan for existing tenants.

On February 26, 2002, staff returned to the Agency Board for direction on next steps after learning that Whole Foods would not participate in the proposed Redevelopment project. Staff presented a comprehensive update on the status of the project and factors to consider in continuing to plan an active role in revitalization of the Site. The Agency Board adopted a resolution directing staff to: (1) complete

the work underway characterizing the environmental conditions of the Site and engage the appropriate regulatory agencies in the development of a remediation strategy to clean up the Site; (2) investigate the interest of other specialty grocery store anchor tenants in the Site; (3) analyze the costs and feasibility of alternate development options for the Site and conduct a community workshop to obtain community input on these development options; (4) rescind authorization to enter into an ERN with City-Core; and (5) return to the Agency Board by May 2002 or an appropriate time soon thereafter with the results of these activities and a recommendation regarding whether to engage in a new process to solicit owner and developer proposals for the redevelopment of the Site, and/or pursue property acquisition on the Site.

The following provides a summary of progress on the direction provided by the Agency Board at its February 26, 2002 meeting:

- I. Environmental investigation:** The table below summarizes the environmental issues for the two contaminated properties of the Site. The presence of contamination is primarily on the southern portion of the Site and should not prevent the development of a mixed use project on the site; however, it makes redevelopment more complex and increases the likelihood of a phased project.

Table: Summary of Environmental Issues for Harris and Henry Properties

Issue	Harris Property	Henry Property
Nature of contamination	<ul style="list-style-type: none"> ▪ Soil and ground contamination resulting from fuel leak ▪ Known shallow soil contamination resulting from former dry cleaner 	<ul style="list-style-type: none"> ▪ Soil and ground contamination resulting from fuel leak ▪ Fuel contamination in deepzone groundwater (55 feet below surface and below)
Rough timeframe for implementing a more aggressive remedial approach	1-2 years	3-5 years
Rough cost estimate of a more aggressive remedial approach	\$600,000	More than \$1 million
Leading possible funding sources for remedial approach	<ul style="list-style-type: none"> ▪ Deduction from purchase offer ▪ State Tank Fund ▪ Responsible party 	<ul style="list-style-type: none"> ▪ Deduction from purchase offer ▪ State Tank Fund ▪ Responsible party (Texaco)

Issue	Harris Property	Henry Property
Impact of remedial approach on development potential	<ul style="list-style-type: none"> ▪ Approach could be implemented prior to or during construction ▪ Site plan would need to accommodate operation and removal of remedial technology (if still required at time of development) and long-term monitoring 	<ul style="list-style-type: none"> ▪ Site planning could not proceed on this property until characterization of contamination is complete and remedial approaches analyzed ▪ Site plan would need to accommodate operation and removal of remedial technology (if still required at time of development) and long-term monitoring
Obstacles to implementing a more aggressive remedial approach	<ul style="list-style-type: none"> ▪ Claimant with Tank Fund is not the property owner ▪ Agency may need to assume claim with Tank Fund and/or initiate legal action against the claimant ▪ ACWD and Tank Fund will need to concur that aggressive remedial approach is warranted 	<ul style="list-style-type: none"> ▪ Technical challenges to remedial approach to deepzone contamination ▪ Contamination is not completely characterized in the deepzone, adding greater uncertainty to possible remedial approaches ▪ Level of contamination poses additional challenges to remedial approach ▪ Cost of remedial approach may exceed Tank Fund claim and /or property value ▪ Agency may need to initiate legal action against responsible party (Texaco)

- a. *Update on work:* The Agency completed the Phase II investigation and analysis of the Site's environmental condition, and had follow up discussions with the Alameda County Water District (ACWD), the Regional Water Quality Control Board (RWQCB), and the State Leaking Underground Storage Tank (LUST) Fund.
- b. *Summary of environmental conditions:* As previously reported, portions of both the Harris and Henry properties contain former leaking underground fuel tank sites with documented soil and groundwater contamination. On the Henry site, contamination has penetrated the deeper, second layer of groundwater (55 feet below surface and lower), and further investigation will be needed to identify the extent of the contamination in this lower zone in the aquifer. On the Harris property, the fuel release (near the existing car wash facility) appears to be well characterized. The Agency's investigation uncovered additional contamination (currently identified only in the shallow soil) related to a former dry cleaner at the southeast corner of the Krage building. Although not yet fully characterized, this contamination appears from preliminary results to be

modest and does not appear to present a health safety threat to current or future shoppers or tenants on the Site.

- c. *Information on remedial approach and costs:* Based on the environmental site investigation, consultation with the environmental consultant retained by the Agency, and discussions with regulatory agencies, staff has concluded that the existing hazardous material in the soil and groundwater on the Harris and Henry property require active remediation of the contamination in conjunction with or prior to redevelopment; that is, both sites will require a system(s) for actively removing contamination from the groundwater. In the case of the Harris property, it is estimated that a more robust remedial technology could potentially clean up the contamination in a 1-2 year timeframe to a level that meets the requirements of the regulatory agencies. The Henry case is far more complicated because of the greater depth of the contamination. Additional investigation in and around the property is needed to define the extent of contamination discovered in the Phase II investigation. However, in a best case scenario, an aggressive clean up strategy would span 3-5 years. In all scenarios, the regulatory agencies will likely require long term monitoring to establish that remaining contamination does not pose an unacceptable risk.

There are at least three sources of funding for cleaning up the contamination on the Henry and Harris properties: (1) the State Leaking Underground Storage Tank (LUST) Fund, (2) a deduction from the purchase price of a particular parcel, and (3) the responsible party. Attempting to utilize LUST funds, which are state collected funds designated for the clean up of contamination from underground gasoline tanks, is complicated by the fact that the claimant is not the property owner; however, the funding appears to be sufficient to implement a prompt and appropriate cleanup. The Agency would need to secure the cooperation of the claimant or attempt to compel the claimant to clean up the contamination. The estimated cost of a more aggressive remedial approach on the Harris property could be as much as \$600,000.

The Henry property is more complicated in terms of cost recovery because neither the property value nor the claim against the Tank Fund may be sufficiently large to cover the anticipated cost of the remedial technologies most likely to be deployed. However, the primary responsible party is ChevronTexaco, which presumably has sufficient resources to implement and maintain a diligent cleanup program. As a first step, ChevronTexaco will need to complete significant additional investigation before developing a remedial approach that addresses the known contamination of the property. If the responsible party or other party were to seek aggressive remediation of the property, it is estimated that the capital and maintenance costs of the technologies most likely to be deployed would exceed \$1 million.

- d. *Impact of environmental issues on redevelopment:* While the regulatory agencies and developers generally prefer to have hazardous material cases closed prior to the beginning of site redevelopment, the redevelopment of so-called Brownfield sites frequently proceeds before regulatory "closure" is achieved. Typically, redevelopment can begin after the site investigation, risk evaluation and preliminary evaluation of cleanup alternatives are completed. The presence of contamination under the surface does not prevent redevelopment at these sites, because the development and the cleanup process frequently can be and are integrated. For example, the development could build around or over the remedial system provided that it maintained access

for maintenance and removal of the system. With the Harris property in particular, staff believes that redevelopment in the near term (1-2 years) can accommodate the remedial strategy and any long term monitoring that may be required. The Henry property poses more challenges to redevelopment in the near term because the extent of deepzone contamination has not been defined and remedial approach likely will be more costly and technically challenging. In order for redevelopment to proceed on the Henry property, the property owner, developer and regulatory agencies would have to agree that they had adequately defined the contamination and developed a remedial approach that will clean up the contamination to an acceptable level. Achieving this agreement will take time and a lot of follow-up work given the level of concern of the regulatory agencies. Staff has, however, confirmed the willingness of the regulatory agencies to work with Agency to issue documentation as appropriate to facilitate redevelopment and establish immunity protecting the Agency, the redeveloper, and future occupants and lenders against further regulatory requirements relating to the existing contamination.

II. Interest of other specialty grocery store anchor tenants: Staff contacted several real estate representatives and brokers for specialty grocery stores to gauge the interest of specialty grocery stores to participate in a possible redevelopment project on the Site. The inquiries were limited to specialty grocery stores, as opposed to more traditional grocers, pursuant to the Agency Board's direction on February 26, 2002. Staff communicated with representatives or brokers of Andronico's, Wild Oats, Draeger's, Trader Joe's, Mollie Stone's, Lunardi's, PW Markets, Piazza's Fine Foods, and Cosentino's. None of these specialty grocery stores expressed a strong interest in the Site in the near term. Several grocers have put expansion plans on hold with the current economic climate. Others do not see Irvington as a good fit for the stores they represent due to existing trade areas and overall business strategy.

III. Evaluation of Alternate Development Options: Costs and feasibility of alternate development options for the Site have been evaluated and a community workshop was held on April 24, 2002, to obtain community input on these development options. The purpose of developing and evaluating alternate development options for the Site was to test the financial impact to the Agency of different development programs and to understand how different options would achieve redevelopment goals (including stimulating additional investment in the area) and community goals. Staff tested a range of development concepts with several potential developers, and also met with several property and business owners in the immediate vicinity of the project to understand their interests in a possible redevelopment project. The table at the end of this section describes conceptual development programs and their financial impact on the Agency.

- a. *Commercial-oriented development option:* As a result of having issued the previous Request for Proposals (RFP) for the Site, evaluated proposals, and discussed the Site extensively with the development team behind the Whole Foods proposal, staff did not focus on learning more about commercial development programs for the Site. Variations on these programs – a neighborhood-serving shopping center with a grocery or drug store – would have an impact on the Agency and the community similar to the proposed Whole Foods project, depending on the anchor tenant, design, and quality of the project. Staff also assumed that a commercially oriented project would remain an important option in the event that the Agency elected to solicit qualifications for a developer for the Site.

b. *Alternate development options:* To develop alternate development options on the Site, staff and Agency consultants assumed the following redevelopment goals:

- Orient retail space to Bay Street
- Provide additional public parking for Bay Street businesses and future redevelopment opportunities
- Tie into character and food/retail uses on Bay Street
- Add to pedestrian activity in area
- Develop around environmental conditions on Henry property
- Maximize housing to achieve a mix of uses and more vitality in the area
- Respond to market forces
- Include 4024 and 4032 Bay Street into the project for purposes of evaluation
- Minimize, other goals being equal, the required Agency subsidy of the project

Staff presented two options (site plans enclosed) at the April 24th public workshop. The options are **illustrative** only, and are not exclusive options. The six-acre site could accommodate any number of development options. Both options presented at the workshop feature a significant housing component with new retail and restaurant buildings along Bay Street, a restaurant pad on Fremont Boulevard, and public parking to serve Bay Street businesses. In the first option, a private road divides the Site. A 120-unit apartment project occupies the southern half of the site, and 14 townhouses, 19,000 square feet of retail and restaurants, and 62 public parking spaces occupy the north half. A 210-unit apartment project dominates the second project, although it also contains 26,000 square feet of retail and restaurant space along Bay Street and Fremont Blvd and 77 public parking spaces. In both options, the public parking spaces are in addition to the zoning-required spaces to accommodate the new private development on the Site.

Community members participating in the April 24 workshop and nearby property and business owners by and large support the goals of the redevelopment project. Most considered the site to be the key site to redevelop in Irvington. Most voiced support for a mixed-use primarily commercial project with retail and some housing. Few voiced support for the high density residential options that were presented. There was strong interest in taking advantage of the character of Clark's Hall and creating a pedestrian-oriented retail environment on Bay Street.

c. *Redevelopment Agency investment:* All development options will require a significant Agency investment, equal to if not greater than the subsidy that was estimated for the Whole Foods proposal. Staff estimates that any redevelopment project on the Site will require between \$15-\$17 million (plus approximately \$2 million in contingency) in total Agency investment (including investment in affordable housing) after accounting for any estimated land sale proceeds to the Agency. This total investment translates into \$12-\$13 million (plus approximately \$2 million in contingency) in net investment after subtracting the present value of future tax increment revenues generated by the project itself. These estimates do not consider possible future tax increment revenues that could be attributable to additional real property improvements in Irvington stimulated by the project.

The options used to illustrate the Agency's required investment are costly for slightly different reasons, but each entails the purchase of property based on an estimate of fair market value and the relocation of approximately 24 businesses/organizations. To the extent applicable, for each business, the Agency will need to reach a settlement related to relocation of the business, any loss of goodwill, and the value of non-movable furniture, fixtures and equipment. New options for the Site do not produce sufficient rent or land payments to cover these costs. A commercially-oriented project may have an anchor tenant such as a grocer that requires a large parking field and pays relatively low rent for its relatively large space. Residential projects would need to include an affordable housing component (9% of all units would be moderate income units and 6% of all units would be very low income units) and most would require structured parking of some kind. The affordability gap per unit, or the difference between the rent stream on the affordable units with controlled rents and the market rate units with uncontrolled rents, is \$50,000–\$90,000 depending on the construction method. Finally, the options include public parking, some of which could be provided in a parking structure.

Table: Summary of Alternate Development Options for the Site*

	Commerical Option (Previous Developer Proposal)	Alternate Option 1	Alternate Option 2
Land Uses	38,000 SF specialty grocery store; 30,000 SF of Retail and Restaurant; 60 Live-work units	120-Unit Apartment Project; 19,000 SF of Retail and Restaurant; 14 For-Sale Townhouses	210-Unit Apartment Project; 26,000 SF of Retail and Restaurant
Public Parking	0 Spaces	62 Spaces	77 Spaces
Acquisition of Two Bay Street Converted Homes	No	Yes	Yes
Agency Costs			
Total Acq. / Rel. Costs	\$14.8 M	\$15.7 M	\$15.7 M
Public Parking costs	0 M	0.1 M	0.2 M
(Less) Residual Land Value	(0.8) M	(1.3) M	(0.9) M
Affordability Gap	0.8 M	1.9 M	1.7 M
Contingency (15%)	<u>2.2 M</u>	<u>2.4 M</u>	<u>2.4 M</u>
Net Costs (rounded)	\$17.0 M	\$18.7 M	\$19.1 M
(Less) Future T.I.**	<u>(\$2.8) M</u>	<u>(3.8) M</u>	<u>(4.8) M</u>
Net Costs after T.I.	\$14.2 M	\$14.9 M	\$14.3 M

* Illustrative options only – not exclusive options

** Including Housing Set-Aside

Discussion: The primary policy issue before the Redevelopment Agency is whether to direct staff to pursue property acquisition of some or all of the Irvington Unified Redevelopment Area, as well as the

two adjacent properties on Bay Street, and solicit development proposals. (For reference purposes these two adjacent properties, 4024 and 4032 Bay Street, will be referred to as part of “the Site”; however, the Agency would need to include the properties in the resolution to include them in the Site.) The Agency could take several different next steps if it elected to pursue redevelopment of the Site, and these options are described below. First, however, the basic decision to proceed with redevelopment of the Site needs to be weighed against removing the Unified Redevelopment Area designation and ending consideration of property acquisition for the Site. The table below summarizes the benefits, costs and risks of proceeding with redevelopment of the Site.

Table: Factors in Pursuing Redevelopment of Monument Center Site

Benefits	Costs	Risks
<ul style="list-style-type: none"> ▪ Eliminates blight ▪ Control over key site that may launch redevelopment of several opportunity sites immediately adjacent to property ▪ Stimulate additional investment in area 	<ul style="list-style-type: none"> ▪ \$12-13 million net Agency investment (plus approximately \$2 million in contingency) ▪ Opportunity cost of not investing in other redevelopment projects ▪ Tenant relocation 	<ul style="list-style-type: none"> ▪ Ultimate mix of uses ▪ Selection of developer without a defined development program ▪ Timing of actual development

I. Benefits of proceeding with redevelopment of the Site: Redevelopment of the Site will eliminate visible and other blighted conditions on a key site in a way that should set the quality standard for, and stimulate future development in Irvington. Its historic character and location at the Five Corners intersection places the Site literally at the center of the emerging Irvington Concept Plan, and Agency control over the Site would enable it to advance the Concept Plan when it is finalized.

- a. *Eliminate blight:* Redevelopment of the Site would eliminate the current blighting conditions on the Site. The abandoned gas station is an eyesore. The buildings are outdated. The uses (including auto parts, religious institution, bar, meat store, office, car wash, and several restaurants) are incongruous. The environmental conditions on the Henry property create issues for any private sector buyer of the property, and such conditions present a challenge to redeveloping the Harris property. The Site is not well-integrated with Bay Street and the Five Corners, with the two of the Bay Street properties fenced off from the Monument Shopping Center. The diverse ownership and multiple tenancy would make it difficult for a private interest to assemble the Site and/or for the property and business owners to jointly improve the Site. At a significant cost, the Agency can correct the Site’s blighted conditions by purchasing the property and redeveloping it in a unified manner with a selected developer.
- b. *Set quality standard for future development:* By assuring that quality development replaces the current conditions on the Site, the Agency can set the quality standard for future development in Irvington. Future development opportunities will emerge with the public investments in the district and implementation of the Concept Plan. The table below summarizes the current and rather substantial near-term public investments planned in the area.

Table: Public Investment in Irvington

Project	Description	Total Cost Est.	Constr. Start Est.
BART Extension to Warm Springs	BART tracks and a possible Irvington BART station.	N/A	2005
Washington Blvd Grade Separation	Overpass and realignment of existing railroad tracts to allow BART extension at grade and to separate train and vehicular traffic.	\$30 million	2004
Fremont Blvd Widening	Four (4) through traffic lanes, bicycle lanes, raised landscaped median divider, and sidewalks from Irvington Ave. to Blacow Rd.	\$4.2 million	2003
Bay St Streetscape	Streetscape and pedestrian improvements along Bay Street.	\$600,000	2004
Utility undergrounding	Overhead utility lines placed underground along Bay St., Fremont Blvd., and Washington Blvd.	\$1.8 million	N/A
Osgood Rd Expansion	Four (4) lanes, bike lanes and sidewalks between South Grimmer and Washington Boulevard.	\$5 million	2003
Roberts Ave Sidewalks	Sidewalks and drainage system between Washington Blvd. and Blacow Rd.	\$500,000	2003
Parking Lot Acquisition	Development of public parking facilities	\$1 million	N/A

These investments will improve the circulation and appearance of the district, and some will lead to direct development opportunities. For example, the grade separation will generate development opportunities as the City will be acquiring several commercial properties along Washington Boulevard to construct the project. Any unused remaining property could play a role in redevelopment from the Five Corners intersection east along Washington Boulevard. The BART extension will open a large tract of land, currently landlocked by the railroad tracks, to development. And, an Irvington BART station would introduce a tremendous development stimulus for multi-family residential development and, subsequently, neighborhood commercial development along Main Street.

Implementation of the Irvington Concept Plan and the Housing Element also should produce development opportunities. The emerging plan contemplates allowing new land uses (primarily residential) and higher density uses in some of the district's underutilized property such as the Tri-City area on Grimmer Boulevard and Main Street. The Housing Element also contemplates rezoning certain areas to higher density residential, and Irvington contains several potential areas for this consideration, including the Fremont Boulevard and Blacow intersection, the underutilized industrial properties on Osgood Road, and the area around a future possible Irvington BART station.

The Five Corners and the Site will remain at the heart of the Irvington district even after these potentially transforming public investments and possible rezonings occur, and redevelopment of the Site will set the tone for future development opportunities associated with these actions. The

Five Corners is one of Fremont's more recognizable intersections with historic buildings fronting the street. It also boasts high traffic counts, confirming its importance as a local hub in the circulation pattern of residents and employees. Finally, Five Corners and especially the Bay Street side of the intersection, is becoming a social and cultural gathering place with the seeming success of the Bay Street Coffee Company, Broadway West Theater, Irvington Farmers' Market, Pearl's Café, and several interesting small retail stores. Strengthening this location with a quality development on the Site will help to further define the character of Irvington and set the quality standard for future development in the area.

- c. *Stimulate additional private investment:* Redevelopment of the Site will not only help set the standard for future development in the area, but it also should provide a direct stimulus to additional investment in the immediately adjacent properties. Along Fremont Boulevard and Roberts Avenue, several private redevelopment activities are underway with new, high quality townhouse projects replacing single-family detached houses or underutilized lots. Staff has spoken to developers interested in building this kind of housing product in Irvington, and a redeveloped commercial center with some combination of shopping, services and food uses along Fremont Boulevard and Bay Street should become a public amenity for new residential development in the area.

Redevelopment of the Site may also incorporate, or at least provide a catalyst to, latent commercial and mixed-use development opportunities immediately adjacent to the Site. Physical site constraints seem to explain why these opportunities are latent; that is, currently, a developer could not add both improved building area and associated parking in an economical fashion. As discussed below under the consideration of a possible RFQ for the Site, staff would expect any new redevelopment to include public parking and to seek to stimulate additional private investment and/or cooperation of property owners in redevelopment of Bay Street. Staff has discussed this idea with several of the adjacent property owners and there appears to be some interest in expanding the sphere of redevelopment by private means. Property owners along Bay Street have expressed interest in improving their property in conjunction with the Bay Street streetscape project and possible Redevelopment of the Site.

The enclosed aerial map shows the centrality of the Site to several potential development opportunities in the immediate vicinity. Properties across Fremont Boulevard and Irvington Avenue and along Papazian, including a couple vacant and/or underutilized properties, could become candidates for private sector investment. Market conditions, which redevelopment of the Site could improve, should one day cause some of the nearby latent development opportunities to materialize.

- d. *Advance Irvington Concept Plan when finalized:* The Site lies at the center of several small-scale development opportunities, as well as the center of the entire district. Thus, while the emerging Concept Plan has not addressed the Site specifically, the Site will play an important role in achieving the ultimate goals of the Concept Plan. Some of the draft goals include developing an identity for Irvington, encouraging the revitalization of underutilized parcels, attracting unique shopping and dining, improving streetscape design and improving the overall appearance of the neighborhood. Control and redevelopment of the Site will allow the Agency to plan and build a

project that attempts to meet these goals in anticipation of the other public investments occurring in the area.

II. Costs of proceeding with redevelopment of the Site: Any development option for the Site would require a substantial net Agency investment on the order of \$12-\$13 million (plus approximately \$2 million in contingency), including affordable housing investment and public parking, and the total Agency investment prior to the tax increment revenue stream could range from \$15-\$17 million (plus approximately \$2 million in contingency). After netting out the estimated value of the land to the developer, the total costs include property acquisition, relocation and goodwill settlements, a 15% contingency, an allowance for soft costs related to continued work on the environmental conditions. These funds could be invested elsewhere in Irvington, or one of the other Redevelopment Project Areas. Thus, as with any project, the Agency investment precludes the Agency from investing the funds elsewhere in the community. Proceeding with redevelopment of the Site also will entail significant staff and consultant costs estimated to be as much as \$450,000 through December 2002. Staff estimates general legal costs of \$65,000, relocation and appraisal costs of \$195,000, environmental counsel and consulting costs of \$90,000, economic and design consulting of \$30,000 and DES and other consulting costs of \$70,000.

The total Agency cost of \$15-\$17 million (with approximately \$2 million contingency) does not take into account any private investment in real property that the possible Redevelopment project might stimulate; however, it is unlikely that the project could stimulate the level of private investment in the surrounding area to justify the project solely in terms of future tax increment revenue. Redevelopment of the Site would need to lead to an increase of more than \$130 million in assessed property value in order to yield a “return” equal to the investment, an amount of new investment that is not conceivable under any realistic scenario.

III. Alternative public investment options for Agency: Total Agency investment of \$15-17 million (with an approximately \$2 million contingency) in the Site would not jeopardize the Agency’s planned investment in the capital improvement projects for the area, but it would preclude other comparable large-scale investments in Irvington in the near term. The Agency would remain in a position to make smaller-scale investments through funds budgeted for the commercial rehabilitation loan program, affordable housing development, and any remaining funds in the \$30 million multi-year allocation for property acquisition and redevelopment activities (covering all three historic districts). The latter budget is designed to cover the Centerville Unified site, additional allocations to the \$1.4 million currently budgeted for the Niles Union Pacific site, Irvington Unified site, Pacific Commons Business Conference Center, and/or other opportunities as they arise. In addition to the \$30 million specifically budgeted for property acquisition and development, the Agency has budgeted \$30 million as a contingency for the grade separation and interchange projects. To the extent that this contingency is not needed, it would be available for reallocation and use on other redevelopment activities.

Staff identified potential alternate investments in Irvington to determine what opportunities could provide a similar stimulative effect to the acquisition and redevelopment of the Site. One of the more near-term alternative investment options for the Agency would be a redevelopment project at the corner the Washington Boulevard and Union Street. In the emerging Concept Plan, community members have expressed interest in the Washington/Union triangle. The draft concept plan

designates it as a key opportunity area on which to focus, with possible land uses including a corner plaza, a “destination” building, and/or a mixed-use building with retail on the ground floor and office or residential above. Development on the corner could provide visual definition of the Five Corners area and of the entrance to Main St., which could become a much more viable commercial and residential street if BART opens an Irvington station. Staff has not estimated the cost of a possible redevelopment project. Depending on the scope of the project, the investment is likely to be significant, but it could be much less than the Monument Center project under consideration. Of course, proceeding with the Monument Center project does not necessarily preclude also undertaking a redevelopment project in Washington/Union area, but it could limit the resources with which to undertake a project.

Other investment opportunities include several latent development opportunities near the Site and possible redevelopment projects in conjunction with:

- Washington Boulevard grade separation, which involves City acquisition and demolition of several commercial properties along Washington Boulevard
- BART extension to Warm Springs, which will involve realignment of the railroad tracks and opening vacant land to development
- Possible Irvington BART station and transformation of Main Street
- Scattered in-fill redevelopment sites such as those mentioned as being in the immediate vicinity of the Site
- Larger redevelopment sites with some of the underutilized commercial property on Grimmer Boulevard

These projects are all longer term in nature and probably will require a catalyst such as the BART station or major development project. Any possible redevelopment project connected to these public investments would necessarily remain at an early exploratory phase for the next few years.

Finally, in addition to investing in real estate projects, the Agency could consider making an alternate investment in additional capital improvements in the area or enhancing programs for property and business owners such as the commercial rehabilitation loan program. Investing in redevelopment of the Site would not jeopardize the capital improvement projects planned for the area, but it would limit funds available for other capital improvement projects such as making additional street and sidewalk improvements in residential neighborhoods or building a public plaza. Similarly, it would limit funds available for expansion of the commercial rehabilitation loan program or creation of new programs targeted to improve the commercial climate of Irvington.

- IV. Risks of proceeding with redevelopment of the Site:** As a potential property owner of the Site and party to a Disposition and Development Agreement (DDA), the Agency would be exposed to all of the risks involved with development projects, including entitlement risks, market risks, and capital market risks if it purchased the property and pursued redevelopment of the Site. To some extent, depending on the final project pursued and the terms of a DDA, the developer would share in those risks. A risk to the Agency which could be significant is that the Agency could proceed with property acquisition and solicitation of a qualified developer and find itself in a situation where it has relocated 24 owner-occupants and tenants and yet the property remains vacant for a period of time for lack of a solid development program. Or the Agency could acquire the property, with tenants in

place on a month-to-month basis, and serve as landlord over these properties, although this would not be considered desirable for the mid or long term. If the Agency served as landlord, there would be tenant and community expectations that improvements to the property would be made rather than letting the properties age and deteriorate in their current form.

The decision to pursue property acquisition without a firm development program or selected developer amplifies the development risks. There are any number of reasons why redevelopment might not occur or might not occur as quickly as the community and Agency Board may want. The Agency may not find a qualified developer with its solicitation process. It may enter into an exclusive period of negotiations with the developer and find out that it cannot reach agreement on terms for a development agreement due to market conditions, site planning issues, financial considerations or other terms. For example, the Agency Board could give direction in the RFQ to pursue a commercially-oriented project, but the developer may find that it cannot do so within reasonable economic parameters and thus propose to build a predominantly residential project.

Even if the Agency enters an agreement for a desired development program, the development schedule could slip for an indefinite period of time due to entitlement issues such as a future City Council's approval of the project, a key tenant pulling out, interest rate or cost of capital increases, etc. While there are ways in which the Agency can mitigate its financial exposure to these development risks, there is no way it can completely mitigate the risk that the Site will sit vacant and/or deteriorate after the Agency has purchased the property.

Options for Proceeding with Redevelopment of the Site:

Option 1 – Proceed with property acquisition of the currently designated Unified Redevelopment Area: The Agency could proceed with property acquisition of the properties that comprise the existing Irvington Unified Redevelopment Area. If so directed, staff would undertake the work necessary to prepare written offers on the property and return to the Agency Board in closed session to obtain direction on making the acquisition offers. The property acquisition process for the two contaminated properties, Harris and Henry, may be more complex given the need of the Agency to ensure that contamination on the Site is investigated and cleaned up to the satisfaction of the regulatory agencies and that the Agency does not bear the cost of environmental investigation and remediation or any future responsibility.

With this option and the following options, staff would proceed with pursuing the demolition of the abandoned gas station as an immediate measure to eliminate blight on the property.

Option 1a – Exclude certain properties from the Site: The Agency could proceed with property acquisition of a portion of the Site and “carve out” select properties. Staff recognizes that not all properties are equally important to achieving the objectives of redevelopment of the Site. If one of the main objectives of redeveloping the Site is to attempt to create a pedestrian-scale retail cluster oriented toward Bay Street, the properties along Irvington Avenue are less crucial to the project and thus less crucial to own. They also appear to pose unique challenges, including environmental conditions and the need to relocate a religious institution. If the Agency desired to reduce the size of the project, excluding the Henry property and, potentially, the Islamic Center property would achieve that objective.

Option 1b – Include 4024 and 4032 Bay Street in the Site: The Agency could proceed with property acquisition of the entire Site, or some portion of the Site, and also proceed to modify the Unified Redevelopment Area to include the two adjacent converted home properties on Bay Street (4024 and 4032 Bay Street). Including these two properties in the Unified Site would allow the Agency to ensure that use of the property is complimentary to the larger project. While that use is not defined at present, the properties figure to play an important role in redeveloping the Site. They have good visibility from Fremont Boulevard relative to the rest of Bay Street, they are adjacent to the historic Clark’s Hall, and they front Bay Street. Their use – whether it remains the existing structures, remodeled structures, new structures altogether, courtyard or walkway space, or even parking or auto access – will be important to establishing the Bay Street pedestrian and retail/restaurant corridor, assuming that establishing such a corridor is one of the objectives of redeveloping the Site.

Including two additional properties in the Unified Site will increase the upfront Agency costs. Another consideration regarding these properties is the possible historical significance of the properties. Both buildings were constructed in the 1920’s or earlier. The Agency commissioned an historic assessment (enclosed) of the properties. The historic assessment provides information to the Agency, property owners, architects, and others on the development team. Both converted homes once belonged to Doctor Grimmer for whom Grimmer Boulevard is named and the structures add to the overall historical context of the Five Corners area. The issue of retention, demolition, or relocation of the two buildings would not be addressed until a development program was developed for the Site.

Option 2: Do not pursue property acquisition: The Agency Board could decide not to pursue any property acquisition related to the Site. If the Board chooses this route, staff recommends rescinding the Unified Redevelopment Area designation on the properties to make it clear to the property owners that the Agency is not anticipating including their property in a redevelopment project. Staff would meet with property owners and attempt to reach agreement on a plan to improve the existing center through the Agency’s commercial rehabilitation loan program.

If the Board directed staff to not pursue property acquisition, staff also would take a closer look at other investment options in the District in concert with completing the Irvington Concept Plan and an accompanying implementation plan.

With this option, staff would proceed with pursuing the demolition of the abandoned gas station as an immediate measure to eliminate blight on the property.

Issuance of Request for Qualifications (RFQ) for a developer: If the Agency elects to direct staff to prepare to make acquisition offers on some or all of the properties of the Site, staff recommends to immediately proceed with the selection of a developer. If so directed, Staff would simultaneously pursue property acquisition of the identified properties and solicitation and selection of a qualified developer.

Given the uniqueness of the Site in terms of environmental issues, Redevelopment Agency involvement, neighboring buildings, and the proposed objectives of redeveloping the Site, staff recommends selecting a developer based on qualifications and interest in the Site rather than a detailed proposal for the Site at this stage. Staff believes it will generate a high quality pool of potential developers by using a Request for Qualifications (RFQ) process rather than requiring respondents to put considerable time and expense into creating detailed proposals. Staff also believes it can expedite the development process by selecting

and beginning to work with a developer and the community on site planning issues rather than engaging in a drawn-out Request for Proposals (RFP) process.

If the Agency elected to proceed with issuing a RFQ, staff would prepare a RFQ based on the direction provided by the Agency Board along with the necessary backup documentation. Staff has identified certain objectives of redeveloping the site, which are listed below:

- Commercial orientation toward Bay St. and Five Corners
- Retail and restaurant uses to be focus of commercial portion and to create a pedestrian oriented environment on Bay St.
- At least one sit-down restaurant
- Housing units desirable
- Minimum of 37 parking spaces for existing Bay Street businesses per zoning standards; additional public parking desirable
- High quality design and materials that address historic buildings in area
- Seek to stimulate additional private investment and/or cooperation of property owners in redevelopment of Bay Street properties

Similarly, staff has identified the selection criteria for the RFQ process, which are listed below:

- Interest in Irvington and the project description
- Vision for the area and the project, including tenant mix
- Experience with infill and Redevelopment Agency projects
- Experience with brownfield projects
- References from public agency partners
- Financial resources
- Access to capital
- Acceptance of Agency Exclusive Right to Negotiate Agreement conditions
- Preference to property owner proposal in Unified Area if proposal qualifications are deemed equal in other respects

Prior to issuing the RFQ, staff also would assemble a list of target developers. Staff has spoken with certain developers that have expressed interest in the project and would identify additional developers specializing in these projects. Pursuant to the Agency's Owner Participation rules, the Agency would include the property owners in the Unified Redevelopment Area in the list of target developers to whom the RFQ will be sent. The Agency's Participation rules expressly allow for the possibility of property owners participating as the developer in a redevelopment project and in fact give preference to proposals with property owner participation if the proposal qualifications are deemed equal in other respects.

Staff would target the end of June as the issue date of the RFQ, during which time it would finalize the RFQ and build the developer list for the solicitations. A rough schedule for the remaining selection process and ultimate redevelopment process is described below:

Table: Redevelopment Timeline with RFQ Distribution in June 2002

Action	Start
RFQ responses due to Agency	Jul-02
Selection of three (3) finalist developers	Aug-02
Due diligence & interviews with finalist developers	Aug-02
Recommendation of preferred developer to Agency Board	Sep-02
Exclusive Right to Negotiate (ERN) period	Oct-02 to Jun-03
Execution of Disposition and Development Agreement (DDA)	Jul-03
Commencement of redevelopment of Site	Late-03

The timeframes shown above are estimates. The actions would proceed in parallel to property acquisition of the Site, development and implementation of a Relocation Plan for tenants of the Site, and ongoing work on a remedial strategy to address environmental conditions on the Site.

ENCLOSURES:

- Site Plan for Alternate Development Option 1
- Site Plan for Alternate Development Option 2
- Site Map with 4024 and 4032 shown as included in the Unified Redevelopment Area
- Aerial map showing ¼ mile ring around Site
- Historical assessment of 4024 and 4032 Bay Street
- Draft Outline of RFQ

Conclusions: A proposed Agency role in property acquisition of the Site will require a net investment of \$12-\$13 million (plus approximately \$2 million in contingency) and significant risk related to the redevelopment of the Site. Staff believes that due to its location and current condition, redevelopment of the Site is a catalyst project for the entire Irvington district. A potential project could build off strengths of the district, including Bay Street Coffee Company, Broadway West Theater, the Farmers' Market, interesting and historic architecture near the Five Corners, and small businesses. At the same time, a redevelopment project could address site-specific weaknesses that seem to have inhibited additional investment in the area, including poor parking arrangements on Bay Street, physical blight, environmental contamination, unusually configured parcels, and lack of pedestrian orientation. Given the Site's current constraints (configuration of parcels, diverse property ownership, and presence of hazardous materials), it is unlikely that market forces will lead to coordinated private redevelopment of the Site. It is also unlikely that a comparable investment in capital projects, redevelopment programs like the commercial rehabilitation loan program, or other potential redevelopment sites could generate an equivalent return in terms of stimulating private investment and enhancing the quality standard for redevelopment in the district.

RECOMMENDATION: Adopt a resolution directing staff to:

1. Begin acquisition process for the following properties (and return to Agency Board in closed session to seek approval to make property acquisition offers):
 - a. Yang Property: 41030-41072 Trimboli Way and 41025-41047 Fremont Blvd.
 - b. Harris Property: 41080 Trimboli Way; 41057-41085 Fremont Blvd., and 4051 Irvington Ave.
 - c. Fremont Islamic Center Property: 4039 Irvington Ave.
 - d. Henry Trust Property: 41093 Fremont Blvd.
 - e. 4024 Bay Street
 - f. 4032 Bay Street
2. Issue an RFQ consistent with the objectives and criteria in this staff report for a developer who seeks to build a mixed-use development project with commercial orientation toward Bay Street and the Five Corners
3. Continue working with regulatory agencies on developing an environmental remediation strategy for the entire site and seek cost recovery from parties responsible for the contamination.
4. Develop a Relocation Plan for tenants on the site.
5. Pursue the demolition of the abandoned gas station on the Site.
6. Approve a transfer of \$400,000 in appropriations from the reserves for property acquisition and development (951 RDA 1026) to Irvington Monument Center (951 RDA 1012); and
7. Modify the Unified Redevelopment Area to include two adjacent converted homes on Bay Street (4024 Bay Street and 4032 Bay Street).

